CALIFORNIA'S ENERGY FUTURE: WHERE DO WE GO FROM HERE?

Remarks by Treasurer Phil Angelides
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Today I would like to speak with you about the energy challenges facing California and about the energy investments we must put in place to maintain our economic strength into the 21st Century.

I want to begin by providing a little perspective. The decade of the '90s was extraordinary. We had the good fortune to experience a remarkable economic boom that made California the very crucible of the new global economy. California became the wealthiest State in the richest nation on earth.

But the turmoil of the past year – from the collapse of the dot-com industry to the emergence of the energy crisis, to the terrorist attacks of September 11th, and now, the bloody strife in the Middle East – has reminded us that nothing lasts forever and that, like most things in life, economic progress is continually earned.

I firmly believe that our future success will rest, in no small part, on our willingness to invest strategically to bolster our economy in the years ahead. And as we struggle to survive these difficult times, we must not cast our eyes to the ground despondently. Rather, we should lift our heads and look toward the horizon at the challenges we will face, and make the investments that will give us the strength to meet those challenges in the decades to come.

As we peer into our State's future, we have our work cut out for us. During the next 20 years, California will add 12 million new residents, more than 5 million new jobs, and 4 million new households. Two million children will be added to our public school system. This growth will exceed that seen during the 1950s, 1960s and 1970s combined – the very definitional period of modern California. And it is under way even as we speak. Just last year alone, California added more than 600,000 new residents.

Unfortunately, in recent years, we have not prepared for the future. Our lack of planning and investment in housing and transportation is diminishing our quality of life and economic competitiveness. Our failure to strategically invest in areas such as education, children's services, and the rebuilding of decaying inner city infrastructure is widening the disparity of economic opportunity across our State and is dimming our economic prospects.

The energy crisis we have endured is not an anomaly. Rather, it is simply one of the consequences that we have suffered as a result of our inclination in recent years to underinvest in our infrastructure and our tendency to over-consume our natural resources.

We have paid a dear price for our failure to plan. Deregulation hit us like an economic tornado. It blew through California and left financial chaos in its wake – higher energy bills for homeowners, increased costs for businesses, and the State itself facing a fiscal crisis.

The full price of that tornado is still being calculated. But we know that in 2000 and 2001 California was stuck with a power bill that was $40 billion above historic levels. And let me be very clear. We may be facing more stormy weather ahead.

Let's look at what happened under deregulation. In the space of about a year, we went from paying obscene amounts for power in a wildly fluctuating market that was under the stranglehold of a few unregulated energy companies, to a period where conservation and a lucky run of mild weather resulted in spot market prices dropping dramatically. Talk abounded about the excess of power that would plague our State for years to come.

To some, there was a perception that we had licked the problem.

Not so.

At the height of the crisis there were projections that California would see a plethora of new power plants coming on line.

Yet the plunge in prices coupled with the collapse of Enron has caused a meltdown in the credit markets. Virtually overnight, the construction of new power plants has come to a screeching halt.

Since 1996 when deregulation became law, 12 power plants that can generate a total of approximately 2,000 megawatts have come on line. Four others with a capacity of about 3,500 megawatts were too far along to cancel, and they are expected to come on line by the end of this summer.

But of the next eight that were in various stages of construction, four have been delayed because of financing difficulties. A ninth one that was scheduled to be on-line by the spring of '04 is now wrapped up in bankruptcy.

My point is that if we don't look forward and put in place a comprehensive energy policy for our State's future, we may again find ourselves at the mercy of the marketplace and a cartel of generators answerable only to their shareholders and not the people of California.

We should learn from our mistakes and move forward. And it is in that vein that I want to discuss with you the policies we must pursue and the actions we must take to secure our energy future.

To do so, we must first come to grips with deregulation, as a practical matter. It is too late to get the toothpaste back into the tube. As flawed as it has proved to be, deregulation is likely to be with us in some form until the federal government regains its common sense. But we must vow that we will never again allow ourselves to be the victims of private markets constructed without regard for the public interest. How then, do we build an energy policy that can sustain our economy, and how do we protect consumers in a deregulated market?

Thankfully, in a democracy, the public always has certain weapons with which it can defend itself from its more greedy and rapacious elements. In the field of energy, California has three primary weapons. The first is public power. The second is conservation. And the third is building our energy independence.

If we use these weapons – perhaps I should say "tools" – with skill and vision, we can ensure that we have adequate energy to serve our present needs and to provide for future growth. I want to say a few words about each one of these tools, beginning with public power.

Approximately one-quarter of California's residents – about 8 million people – are served by municipally-owned and operated utilities that continue to produce public power for our residents and businesses at reasonable prices. In this energy crisis, those communities served by public power stood as islands of stability in the electrical storm that beset us.

But the balance of California, some 27 million of our fellow residents, live in the new world of deregulation. And as we have seen, the deregulated market, left to its own devices, does not work.

That is why that last year, I proposed, and the Governor signed into law, the legislation that created the California Consumer Power and Conservation Financing Authority. It will finance new power generation and energy conservation efforts, to ensure that the State can control its own energy destiny. And, it will provide a counterbalance to the deregulated market – maintaining true competition while also liberating Californians from the vise of profiteers.

We are now moving to make the Power Authority a reality – a force to provide balance to the energy market. The Authority has adopted a plan to make available 3,500 megawatts of clean power – "green" power, if you will – by 2006 to meet the demands of a growing economy and State.

The Authority plan calls for a $4 billion investment in wind, solar, geothermal, biomass, and fuel cell technologies to create new capacity, coupled with vigorous conservation programs to reduce demand.

The plan has several practical advantages:

It puts us in a position to deliver needed new capacity if the private sector does not.
As a competitive force in the marketplace, it protects us against spiking electricity prices.
It diversifies our power portfolio, reducing our reliance on natural gas.

Now, just in case you are thinking that public power is an untested, unproven idea, I want to take you back to the 1930s, when Franklin Roosevelt became a champion of public power because of the excesses of the private energy market. He advocated creation of a public power authority in the State of New York. "It is our power," he said, "and no inordinate profit must be allowed to those who act as the people's agents in bringing this power to their homes and workshops." He likened public power to a yardstick by which to measure the price of private power.

And because he recognized the limits of the private markets, he created the TVA and the REA to bring electricity to those millions of Americans still laboring in a 19th Century economy without electric power. In the vaunted deregulated market, prior to public power, millions of families washed clothes without washing machines, milked cows without milking machines, heated heavy irons on wood-burning stoves, and lighted their houses with kerosene lamps.

The power to operate the conveniences of civilization, without which we would not be the most advanced and wealthiest State in the richest nation on earth, should never be subject solely to the bids of buyers and sellers at a market bazaar.

Our own California history is rich with public power. In my own community of Sacramento, citizens went to the ballot box in 1923 to create a municipal utility district. Now – three-quarters of a century later – SMUD continues to play a pivotal role in our region's prosperity.

The City of Los Angeles saw the wisdom of public power even earlier. The City Power System, now integrated into the Los Angeles Department of Water and Power, began in 1917, and by 1939 it had become the sole provider of electric energy for the largest city in our State.

The second component of our long-range energy policy must be a commitment to setting new standards for conservation and energy efficiency – not just this year, but in the years ahead. Until we create new energy supplies over the coming years, conservation is our most effective tool to help us break the stranglehold of the generators' cartel and ward off a repeat of the price spirals we saw in late 2000 and early 2001.

In 2001, Californians used 8.9 percent less electricity during peak hours than they did in 2000, after adjustments for the effects of weather and economic growth. During peak hours last summer, conservation reduced electricity consumption by an average of 10 percent, with a record reduction of 14 percent in June. But we must keep going.

In the 1970s and '80s, we put in place measures ranging from pathbreaking building standards to incentives for energy efficiency. But then, as we did in other elements of our public infrastructure, we sat on our lead. Now is the time to re-dedicate ourselves to conservation and efficiency practices and pricing that will once again be a model for the nation and for the world.

The final key component of our energy policies must be to ensure that there is enough new energy generation capacity to meet the needs of our growing population and economy.

It is clear that it will take the efforts of the Power Authority and the private sector to meet our needs in the years ahead.

As we are moving to do at the Power Authority, we need to place particular emphasis, across the marketplace, on alternative energy sources – solar, wind, and other clean technologies.

More than 90 percent of the generating capacity under development in the wake of last year's crisis, by private sector companies, comes from gas-fired plants. We need a broader diversity of sources to secure a stable energy future and to preserve our environment.

According to a recent study by a respected think tank, California has lost its place as the wind-power capital of the world to Denmark, Spain, and Germany. Those countries, the study says, have developed vastly improved wind turbines that can produce energy at costs competitive with fossil fuel plants.

The study says by taking advantage of all the windy areas of the United States, this country could become "the Saudi Arabia of wind power," giving us an energy independence that we desperately need. And California could play a leading role.

David Freeman, Chairman of the new State Power Authority, said something about one renewable energy resource – solar power – that I think bears repeating. David said:

"There's only one real source of life on this earth and that is the sun. We're just kind of dumb to get the rays free of charge, but not figure out how to use them in large quantities. Soon as we do, Mother Earth will just breathe a whole lot easier." Wise words, I believe.

In recent years, as we pursued the folly of energy deregulation, we forgot an important principle – that there are certain services that are far too important to the public interest to be left solely to the marketplace. As a businessman for 15 years before I became State Treasurer, I have great respect for the good which private markets can achieve. They are home to innovation, entrepreneurship, and wealth creation. But in and of themselves, they do not and cannot meet all public needs. Indeed, the successful 20th Century American economic model blends intelligent public sector engagement with the dynamism of the private sector.

In the two decades that followed World War II, California was fortunate to have leaders who recognized that principle, who planned for the future and who made investments in the public infrastructure that sustains us today. Earl Warren, Goodwin Knight and Pat Brown, for example, gave us a world-renowned water project that gave life to dry fields and distant cities. They gave us a nine-campus university system and a 23-campus state university system that educated the best workforce in the world, as well as a transportation system that, in its heyday, was the best in the world.

Arthur Schlesinger discussed the public-private sector roles eloquently in an article he wrote last year for The American Prospect:

“The untrammeled market is not likely to solve the problems that assail us,” he wrote. “By itself the market will neither improve our schools nor protect our environment nor rebuild our infrastructure nor civilize our cities nor provide all our citizens with medical care nor protect consumers and investors from business deception nor achieve racial justice nor reduce the growing disparities in wealth and opportunity.”

In 1996, when legislation to deregulate the electricity industry in California was passed, we forgot this important lesson of the 20th Century. We turned our back on a legacy of public investment. We placed blind faith in the power of the marketplace. And we did so without building an energy infrastructure to meet the challenges of growth which California faces in the decades ahead.

I will leave you with this thought: The road to energy independence and stability will be long and will require perseverance, dedication, vision and toughness. But it is part of a larger commitment which we must make – to invest again in our future and to lay the public foundation for a 21st Century of greatness.

In our schools, we teach our children the wonderful stories of California and American history. We teach them about the Progressive Era during which the public realm broke the pernicious power of the trusts. We teach them about the New Deal in which the public sector played a pivotal role in saving the nation’s economy. And we teach them of the great public works built in post-war California, which helped transform the State into a world-class economic power.

When California students, 40 or 50 years from now, learn of their State’s past, it is my hope that they will learn that in the midst of crisis, we once again embraced our legacy of public investment and we protected the public interest to sustain the world's most successful economic experiment.

Thank you for asking me to speak to you today.